

State of Idaho

Legislative Services Office

Individual Entity Audit Report

A communication to the Joint Finance-Appropriations Committee

IDAHO BOND BANK AUTHORITY

FY 2008

Report OP15508
Date Issued: January 22, 2009

Serving Idaho's Citizen Legislature



Don H. Berg, Manager

Idaho Legislative Services Office
Legislative Audits Division

IDAHO BOND BANK AUTHORITY

SUMMARY

PURPOSE OF AUDIT REPORT

We have audited the financial statements of the Idaho Bond Bank Authority for the fiscal year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America. The purpose of our audit is to determine whether the Authority's financial statements are materially accurate and reliable, and that it complied with laws and regulations affecting fiscal operations.

CONCLUSION

We conclude that the Authority's financial statements are materially accurate and reliable, and fiscal operations materially comply with related laws and regulations. As a result, we issued an unqualified opinion on the Authority's financial statements.

FINDINGS AND RECOMMENDATIONS

There is one finding and recommendation in this report.

- 2008-1 Internal control weaknesses exist in the process for preparing the financial statements.

The complete finding is detailed on page 12. A copy of the entire report is available at <http://www.legislature.idaho.gov/audit/auditsummaries.htm> or by calling 208-334-4832.

PRIOR FINDINGS AND RECOMMENDATIONS

There were two findings and recommendations in the prior report.

- 2007-1 Material errors existed in the financial statements due to the lack of an accounting system and accounting expertise within the Authority.

Corrective Action

The Authority contracted with an independent accounting firm to compile financial statements. In addition, the Authority's executive director is seeking training opportunities to ensure that the financial statements are properly reviewed.

Status: **CLOSED**

2007-2 Costs of salaries and fringe benefits provided by the State Treasurer's Office were not disclosed in the Authority's financial statements as required.

Corrective Action

The cost for salaries and fringe benefits have been included in the current financial statements.

Status: **CLOSED**

AGENCY RESPONSE

The State Treasurer's office has reviewed the report and is in general agreement with its contents.

This report is intended solely for the information and use of the State of Idaho, Idaho State Treasurer's Office, and the Idaho Bond Bank Authority, and is not intended to be used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the executive director, Liza Carberry, and her staff.

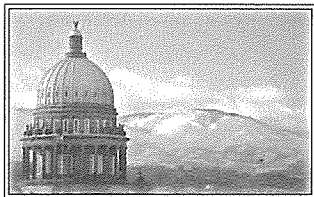
ASSIGNED STAFF

Patrick Aggers, CPA, Staff Auditor

April Renfro, CPA, Managing Auditor

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Legislative Services Office Idaho State Legislature

Serving Idaho's Citizen Legislature

Jeff Youtz
Director

January 15, 2009

Unqualified Opinion on
Basic Financial Statements

Independent Auditor's Report

Honorable Ron Crane, Idaho State Treasurer, Chair
Idaho Bond Bank Authority
304 North 8 Street, Room 208
Boise, ID 83702

Liza Carberry, Executive Director
Idaho Bond Bank Authority
304 North 8 Street, Room 208
Boise, ID 83702

Dear Authority Members and Executive Director:

We have audited the accompanying basic financial statements of the Idaho Bond Bank Authority, a component unit of the State of Idaho, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Bond Bank Authority as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2009, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal

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Mike Nugent, Manager
Research & Legislation

Cathy Holland-Smith, Manager
Budget & Policy Analysis

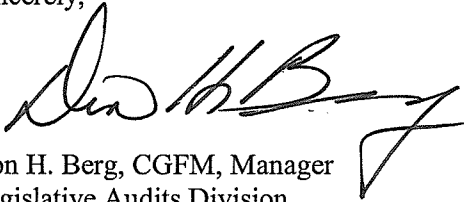
Don H. Berg, Manager
Legislative Audits

Glenn Harris, Manager
Information Technology

control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered when assessing the results of our audit.

The Bond Bank Authority has not presented the Management Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Sincerely,

A handwritten signature in black ink, appearing to read "Don H. Berg", with a stylized flourish at the end.

Don H. Berg, CGFM, Manager
Legislative Audits Division

STATE OF IDAHO
IDAHO BOND BANK AUTHORITY
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008

ASSETS

CURRENT ASSETS

| | |
|----------------------------|--------------------|
| Loans and notes receivable | \$2,465,000 |
| Deferred costs | 1,274,057 |
| Interest receivable | 813,997 |
| Total current assets | <u>\$4,553,054</u> |

NONCURRENT ASSETS

| | |
|----------------------------|---------------------|
| Loans and loans receivable | <u>\$66,105,000</u> |
| Total noncurrent assets | <u>\$66,105,000</u> |

| | |
|--------------|----------------------------|
| Total assets | <u><u>\$70,658,054</u></u> |
|--------------|----------------------------|

LIABILITIES

CURRENT LIABILITIES

| | |
|---------------------------|--------------------|
| Bonds and notes payable | \$2,465,000 |
| Deferred revenue | 181,565 |
| Interest payable | 813,997 |
| Total current liabilities | <u>\$3,460,562</u> |

NONCURRENT LIABILITIES

| | |
|------------------------------|---------------------|
| Bonds and notes payable | <u>\$67,197,492</u> |
| Total noncurrent liabilities | <u>\$67,197,492</u> |

| | |
|-------------------|---------------------|
| Total liabilities | <u>\$70,658,054</u> |
|-------------------|---------------------|

NET ASSETS

| | |
|----------------------------------|----------------------------|
| Unrestricted | <u>\$0</u> |
| Total net assets | <u>\$0</u> |
| Total liabilities and net assets | <u><u>\$70,658,054</u></u> |

The accompanying notes are an integral part of these financial statements.

STATE OF IDAHO
IDAHO BOND BANK AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

OPERATING REVENUES

| | |
|------------------------------|--------------------|
| Interest on Loans Receivable | \$2,084,983 |
| Other income | <u>74,075</u> |
| Total operating revenues | <u>\$2,159,058</u> |

OPERATING EXPENSES

| | |
|--------------------------|--------------------|
| Interest expense | \$2,084,983 |
| Amortization expense | 71,964 |
| Other expense | <u>2,111</u> |
| Total operating expenses | <u>\$2,159,058</u> |

| | |
|----------------------|------------|
| CHANGE IN NET ASSETS | <u>\$0</u> |
|----------------------|------------|

| | |
|---|------------|
| TOTAL NET ASSETS, BEGINNING OF YEAR, as restated | <u>\$0</u> |
|---|------------|

| | |
|----------------------------------|-------------------|
| TOTAL NET ASSETS, END OF YEAR | <u><u>\$0</u></u> |
|----------------------------------|-------------------|

The accompanying notes are an integral part of these financial statements.

STATE OF IDAHO
IDAHO BOND BANK AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

| | |
|---|---------------------|
| Receipts from bonds issued | \$33,758,314 |
| Payments on bond principal | (1,590,000) |
| Payments of bond interest | (1,615,768) |
| Payments of issue costs | (671,834) |
| NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES | <u>\$29,880,712</u> |

CASH FLOW FROM INVESTING ACTIVITIES

| | |
|---------------------------------------|-----------------------|
| Disbursements of loans receivable | (\$33,086,480) |
| Receipts of loan principal | 1,590,000 |
| Receipts of loan interest | 1,615,768 |
| NET CASH USED BY INVESTING ACTIVITIES | <u>(\$29,880,712)</u> |

NET CHANGE IN CASH AND CASH EQUIVALENTS

\$0

CASH EQUIVALENTS AND CASH WITH TREASURER,
BEGINNING OF YEAR

\$0

CASH EQUIVALENTS AND CASH WITH TREASURER,
END OF YEAR

\$0

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Idaho Bond Bank Authority ("Authority"), have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for the governmental accounting and financial reporting principles. The financial statements are presented as of and for the year ended June 30, 2008.

Reporting Entity

The Idaho Bond Bank Authority was created by Idaho Code, Section 67-8703, authorizing the Authority to issue bonds to make loans to local governments for infrastructure. The objective of the Authority is to obtain lower interest rate and underwriting costs than local governments can achieve individually. The Authority is administered by a five member board, of which two members are appointed by the governor and three are elected officials.

The Authority is included as a component unit in the State of Idaho financial statements. The Authority can obligate State sales tax revenue as a source of payment or security for bonds issued, which imposes a potential direct financial burden on the State.

Basis of Accounting and Financial Statement Presentation

The Authority is accounted for and reported as a proprietary-type enterprise fund. Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets display information about the Authority. These statements include the financial activity of the overall reporting entity. These statements report all activities of the Authority as a business-type activity. Operations are financed primarily from interest income.

The Authority has chosen not to apply all Financial Accounting Standards Board statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued after November 30, 1989.

The Statement of Net Assets presents the Authority's assets and liabilities, with the difference reported as net assets. Net assets are displayed as unrestricted net assets; however, unrestricted net assets may have constraints or designations placed upon them by management, which can be unilaterally removed.

Basis of Presentation

The Authority is accounted for and reported as a proprietary-type enterprise fund using the accrual basis of accounting. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

Deferred Revenue

Deferred revenue represents the excess note receivable balance over the cash that was distributed to the participants. The deferred revenue is amortized over the life of the notes and recognized as revenue in correlation with the amortization of the deferred charges.

Loans and Notes Receivable

Loans and notes receivable consist of loans to local governments in order to finance infrastructure needs.

Deferred Charges

Deferred charges represent those direct costs associated with the issuance of the bonds. These costs are capitalized and amortized over the life of the bond. The Authority has incurred \$1,432,786 in bond issuance costs with accumulated amortization as of June 30, 2008 of \$158,730, related to these costs.

Provisions for Loan Losses

Periodic evaluation of the loans receivable portfolio is performed in order to determine whether an allowance for loan losses should be established and reflected in current operations. Due to various levels of security and the Authority's low delinquency rates in its loan portfolio, management determined that no allowance for loan losses was necessary for the year ended June 30, 2008.

Bonds and Notes Payable

Bonds and notes payable include bonds issued to make loans to local governments in order to finance infrastructure needs. Bond premiums, as well as issuance costs, are deferred and amortized over the life of the loan. See Note 2 for further explanation. The Authority's financial statements report long-term obligations, such as bonds and notes payable, as liabilities, with the portion payable within 12 months designated separately from the portion payable in more than 12 months.

State Appropriation

The State provides employees who perform services associated with the Authority. These services are donated to the Authority and recorded at the value of the salaries and benefits. In the current year the amount appropriated was \$2,111.

NOTE 2. LONG-TERM LIABILITIES

The Authority is authorized to issue and sell revenue bonds under provisions of the Idaho Constitution, Article VIII, Section 2A, and Idaho Code, Sections 67-8701 through 67-8729. The bonds are used by the Authority to make loans to local governments in order to finance infrastructure needs. The bonds are limited obligations of the Authority and do not constitute a debt of the State of Idaho or any of its political subdivisions. Revenue Bonds Series 2004A were originally issued in the amount of \$11,070,000, Series 2006A bonds had an original issue amount of \$17,415,000, the 2006B issue, consisting of series and term bonds, had an original issue amount of \$9,780,000, the 2007A issue, had an original issue amount of \$11,700,000, the 2007B issue, had an original issue amount of \$145,000, the 2008A issue, had an original issue amount of \$14,625,000, and the 2008B issue, had an original issue amount of \$7,095,000.

Revenue bond debt service requirements to maturity are as follows:

| Fiscal Year Ending June 30 | Series 2004A | | Series 2006A | | Series 2006B | | Series 2007A | |
|----------------------------------|--------------------|--------------------|---------------------|--------------------|--------------------|--------------------|---------------------|--------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2009 | \$785,000 | \$399,305 | \$575,000 | \$726,738 | \$495,000 | \$427,500 | \$345,000 | \$472,666 |
| 2010 | 800,000 | 367,530 | 610,000 | 703,038 | 520,000 | 405,931 | 410,000 | 457,094 |
| 2011 | 845,000 | 326,405 | 630,000 | 678,238 | 270,000 | 389,313 | 425,000 | 439,872 |
| 2012 | 885,000 | 283,155 | 660,000 | 652,438 | 565,000 | 372,444 | 445,000 | 421,928 |
| 2013 | 930,000 | 237,780 | 685,000 | 625,538 | 590,000 | 349,344 | 460,000 | 403,550 |
| 2014-2018 | 3,195,000 | 584,005 | 3,290,000 | 2,652,388 | 3,385,000 | 1,281,844 | 2,590,000 | 1,717,978 |
| 2019-2023 | 1,435,000 | 130,660 | 3,930,000 | 1,869,471 | 975,000 | 691,619 | 3,165,000 | 1,136,928 |
| 2024-2028 | 0 | 0 | 3,910,000 | 935,095 | 765,000 | 517,594 | 3,860,000 | 419,488 |
| 2029-2033 | 0 | 0 | 1,375,000 | 382,838 | 970,000 | 305,078 | 0 | 0 |
| 2034-2039 | 0 | 0 | 990,000 | 68,175 | 940,000 | 79,613 | 0 | 0 |
| Total | <u>\$8,875,000</u> | <u>\$2,328,840</u> | <u>\$16,655,000</u> | <u>\$9,293,957</u> | <u>\$9,475,000</u> | <u>\$4,820,280</u> | <u>\$11,700,000</u> | <u>\$5,469,504</u> |

| | | | | |
|---------------|----------------|----------------|----------------|----------------|
| Interest Rate | 2.50% to 5.00% | 4.00% to 5.00% | 4.00% to 5.00% | 3.40% to 4.25% |
|---------------|----------------|----------------|----------------|----------------|

| Fiscal Year Ending June 30 | Series 2007B | | Series 2008A | | Series 2008B | | Total | |
|----------------------------------|------------------|-----------------|---------------------|--------------------|--------------------|--------------------|---------------------|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2009 | \$10,000 | \$4,872 | \$255,000 | \$635,116 | \$0 | \$261,552 | \$2,465,000 | \$2,927,749 |
| 2010 | 15,000 | 5,224 | 405,000 | 651,694 | 0 | 313,863 | 2,760,000 | 2,904,374 |
| 2011 | 15,000 | 4,676 | 420,000 | 635,194 | 0 | 313,863 | 2,605,000 | 2,787,561 |
| 2012 | 15,000 | 4,121 | 450,000 | 617,794 | 175,000 | 310,800 | 3,195,000 | 2,662,680 |
| 2013 | 15,000 | 3,559 | 465,000 | 600,150 | 185,000 | 304,500 | 3,330,000 | 2,524,421 |
| 2014-2018 | 75,000 | 9,071 | 2,795,000 | 2,661,844 | 1,040,000 | 1,412,731 | 16,370,000 | 10,319,861 |
| 2019-2023 | 0 | 0 | 3,440,000 | 1,995,559 | 1,375,000 | 1,182,200 | 14,320,000 | 7,006,437 |
| 2024-2028 | 0 | 0 | 4,335,000 | 1,077,375 | 2,930,000 | 668,225 | 15,800,000 | 3,617,777 |
| 2029-2033 | 0 | 0 | 1,205,000 | 314,625 | 1,390,000 | 63,225 | 4,940,000 | 1,065,766 |
| 2034-2039 | 0 | 0 | 855,000 | 111,375 | 0 | 0 | 2,785,000 | 259,163 |
| Total | <u>\$145,000</u> | <u>\$31,523</u> | <u>\$14,625,000</u> | <u>\$9,300,726</u> | <u>\$7,095,000</u> | <u>\$4,830,959</u> | <u>\$68,570,000</u> | <u>\$36,075,789</u> |

| | | | |
|---------------|------------------|----------------|----------------|
| Interest Rate | 3.625% to 4.125% | 3.25% to 5.00% | 3.50% to 5.00% |
|---------------|------------------|----------------|----------------|

The revenue bonds are secured by loan payments from local governments, investment earnings on amounts held by the trustee, and any other monies received by the Authority as designated revenues. The Series 2006A, 2008A, and 2008B bonds are further secured by monies in the debt service reserve funds held by each participant. The 2007A bonds are partially secured by monies in the debt service reserve fund held by one of the participants. The reserve requirement for all loans for which a debt service fund has been established is equal to the lesser of 125% of the annual debt service, the maximum annual debt service, or 10% of the original issue amount.

The changes in long-term liabilities for the fiscal year ended June 30, 2008 are as follows:

| Long-term Liabilities | Balances at July 1, 2007 | Increases | Reductions | Balances at June 30, 2008 | Amounts Due Within 1 Year |
|-----------------------|--------------------------------|--------------|---------------|---------------------------------|------------------------------|
| Revenue Bonds - 2004A | \$9,625,000 | \$0 | \$(750,000) | \$8,875,000 | \$785,000 |
| Revenue Bonds - 2006A | 17,190,000 | 0 | (535,000) | 16,655,000 | 575,000 |
| Revenue Bonds - 2006B | 9,780,000 | 0 | (305,000) | 9,475,000 | 495,000 |
| Revenue Bonds - 2007A | 0 | 11,700,000 | 0 | 11,700,000 | 345,000 |
| Revenue Bonds - 2007B | 0 | 145,000 | 0 | 145,000 | 10,000 |
| Revenue Bonds - 2008A | 0 | 14,625,000 | 0 | 14,625,000 | 255,000 |
| Revenue Bonds - 2008B | 0 | 7,095,000 | 0 | 7,095,000 | 0 |
| Total | \$36,595,000 | \$33,565,000 | \$(1,590,000) | \$68,570,000 | \$2,465,000 |
| Premiums/Discounts | 1,038,030 | 173,314 | (118,853) | 1,092,491 | |
| Total Bonds Payable | \$37,633,030 | \$33,738,314 | \$(1,708,853) | \$69,662,491 | \$2,465,000 |

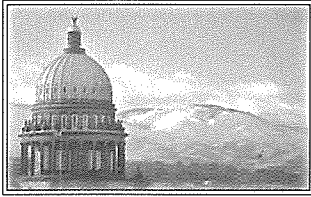
NOTE 3. SUBSEQUENT EVENTS

The Idaho Bond Bank Authority issued two revenue bonds during October 2008 – Series 2008C in the amount of \$23,360,000 and Series 2008D in the amount of \$365,000. The Authority also issued Series 2008E revenue bonds in November 2008, in the amount of \$27,829,000.

NOTE 4. FUND EQUITY

During fiscal year 2008, additional information became available that required the restatement of the beginning net assets.

The beginning net assets decreased by \$1,323 due to an overstatement of notes receivable in prior reports.



Legislative Services Office Idaho State Legislature

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Jeff Youtz
Director

January 15, 2009

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial
Statements Performed in Accordance
with Government Auditing Standards

Honorable Ron Crane, Idaho State Treasurer, Chair
Idaho Bond Bank Authority
304 North 8 Street, Room 208
Boise, ID 83702

Liza Carberry, Executive Director
Idaho Bond Bank Authority
304 North 8 Street, Room 208
Boise, ID 83702

Dear Authority Members and Executive Director:

We have audited the financial statements of the Idaho Bond Bank as of and for the year ended June 30, 2008, and have issued our report thereon dated January 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such

Mike Nugent, Manager
Research & Legislation

Cathy Holland-Smith, Manager
Budget & Policy Analysis

Don H. Berg, Manager
Legislative Audits

Glenn Harris, Manager
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Boise, Idaho 83720-0054

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that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in Finding 2008-01 in the Findings and Recommendations section of this report, to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described in Finding 2008-01 to be a material weakness.

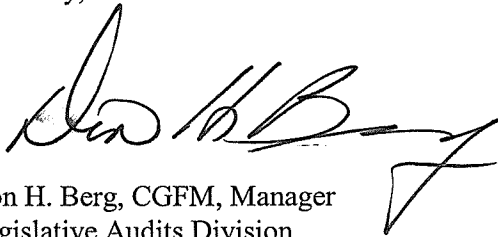
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to the management of the Authority in a separate letter.

This report is intended solely for the information and use of the State of Idaho and the Idaho Bond Bank Authority and is not intended to be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read "Don H. Berg", with a stylized flourish at the end.

Don H. Berg, CGFM, Manager
Legislative Audits Division

FINDINGS AND RECOMMENDATIONS

FINDING 2008-1

Internal control weaknesses exist in the process for preparing the financial statements.

Internal controls are essential to ensure that financial statements and note disclosures are accurate and complete. Classification errors in the financial statements resulted from internal control weaknesses. We are required by generally accepted auditing standards to disclose the weaknesses in the report. The following are examples of the weaknesses.

1. The current interest receivable and payable for three issuances that occurred in fiscal year 2008 were omitted from the financial statements. The total amount omitted is approximately \$193,000.
2. The Statement of Cash Flows included items which were misclassified. Accounting standards require that many of the cash flows for the Authority's loan program be classified as investing activities instead of operating activities.

RECOMMENDATION

We recommend that the Authority review the internal controls over financial statement preparation and strengthen the process as appropriate. The review should include the process for ensuring the completeness and accuracy of the financial statements.

AGENCY'S CORRECTIVE ACTION PLAN

The executive director of the Idaho Bond Bank Authority has contracted with an outside accounting firm to provide monthly accounting updates on Idaho Bond Bank activity. The executive director will distribute these reports for review to the Authority's outside staff including but not exclusively the underwriting firm, the financial advisor, and the Bond Bank's counsel. In addition, the executive director is actively pursuing continuing bond accounting education to enhance her ability to review the monthly accounting reports.

AGENCY RESPONSE

RON G. CRANE
STATE TREASURER



(208) 334-3200
(208) 332-2960 FAX

**STATE OF IDAHO
OFFICE OF THE STATE TREASURER**

ROOM 102 STATEHOUSE
P.O. BOX 83720
BOISE, IDAHO 83720-0091

April Renfro
Legislative Audits
954 W. Jefferson St. 2nd Floor
Boise, ID 83720-0054

January 14, 2009

Dear Ms. Renfro:

Thank you for completing the FY 2008 audit on the Idaho Bond Bank Authority. I have reviewed the audit and accept it as presented.

As always it is a pleasure to work with you and your staff. I appreciate your efforts to streamline and improve the operations of our office.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Crane", with a long horizontal flourish extending to the right.

Ron G. Crane
State Treasurer

APPENDIX

HISTORY

The Idaho Bond Bank Authority was established in 2001 by Idaho Code, Title 67, Chapter 87. Organizationally, the Authority is an independent entity that operates within the Office of the State Treasurer. The Authority, by constitutional amendment, is relieved from certain State constitutional debt limitations and voter approval requirements.

PURPOSE

The purpose of the Authority is to lend money to local governments within the State, with the goal of providing funds for their infrastructure needs and access to capital markets at competitive interest rates.

ORGANIZATION

The Authority consists of five members including the State Treasurer, or his designee, serving as ex officio chairman, one member of the Senate serving at the pleasure of the President Pro Tempore for a term of two years, one member of the House of Representatives serving at the pleasure of the Speaker of the House of Representatives, and two members appointed by the Governor serving four year terms.

FUNDING

In the first session of 2001, the Legislature passed Senate Bill 1174 creating the Authority.

Using the Authority's program, a municipality obtains a loan from the Authority secured by either the municipality's bond or a loan agreement with the Authority. The Authority pools several loans to municipalities into one bond issue. The municipalities then repay the loan, and those repayments are used to repay the revenue bonds. The Authority can obtain better credit ratings, more attractive interest rates, and lower underwriting costs than municipalities could achieve individually. The Authority is able to pledge certain State funds as additional security for its bonds, further reducing interest costs.

Since 2001, the Authority has issued \$71,830,000 in revenue bonds. The Authority has received \$100,000 in contributions from the Office of the State Treasurer to pay for some of the Authority's administrative expenses. In the first session of 2007, the Legislature amended Idaho Code, Title 67, Chapter 87, to allow for the Office of the State Treasurer to pay for the expenses beginning in fiscal year 2008.